STATEMENT OF THE HOSPITALIZATION COMMITTEE
OF THE GOVERNMENT EMPLOYES COUNCIL, AFL-CIO
BEFORE THE COMMITTEE ON POST OFFICE AND CIVIL SERVICE
HOUSE OF REPRESENTATIVES
TUESDAY, JULY 21, 1959

Mr. Chairman and Members of the Committee. We are here representing the 600,000 members of organizations affiliated with the Government Employes Council, AFL-CIO. The names of the organizations composing the Government Employes Council are listed for your information: American Federation of Government Employees; American Federation of State, County and Municipal Employees; American Federation of Technical Engineers; International Association of Bridge, Structural and Ornamental Iron Workers; International Association of Fire Fighters; International Brotherhood of Boiler Makers, Iron Ship Builders, Blacksmiths, Forgers and Helpers of America; International Association of Machinists; International Brotherhood of Bookbinders; International Brotherhood of Electrical Workers; International Plate Printers, Die Stampers and Engravers' Union of North America; International Printing Pressmen and Assistants Union of North America; International Typographical Union; International Union of Operating Engineers; Journeymen Barbers, Hairdressers, Cosmetologists and Proprietors International Union of America; Metal Trades Council and Central Labor Union of the Panama Canal Zone; National Association of Letter Carriers; National Federation of Post Office Clerks; National Association of Post Office and Postal Transportation Service Mail Handlers, Watchmen and Messengers; National Postal Transport Association; National Federation of Post Office Motor Vehicle Employees; Office Employees International Union; The National Association of Special Delivery Messengers; United Brotherhood of Carpenters and Joiners of America; and United Association of Journeymen & Apprentices of the Plumbing & Pipe Fitting Industry of the U. S. and Canada.

This Committee is the Hospitalization Committee of the G.E.C., and for the past five years we have been engaged in an intensive and exhaustive study of a hospitalization program for Government employees. This Committee is composed of E. C. Hallbeck, Legislative Representative of the National Federation of Post Office Clerks; Jerome J. Keating, Vice President of the National Association of Letter Carriers; James A.

Campbell, President of the American Federation of Government Employees; William H. Ryan, President of District 44 of the International Association of Machinists; and Paul A. Nagle, President of the National Postal Transport Association.

A number of bills have been introduced on this subject, going back as far as ten years; hearings have been held; the Administration has proposed legislation; but it was not until this year that any real progress has been made. This year for the first time, the insurers, the employee groups, the American Medical Association and the American Hospital Association have found it possible to agree on a program. In the past many of the proposed programs have been inadequate; each underwriter proposed his own program and the employee organizations could not fully support any of them. Likewise, the underwriters could not support the employee plans. This year, for the first time, all groups present a united front.

We are here to present evidence supporting S. 2162 as passed by the Senate. Exact duplicates of that bill have been introduced in the House by Congressmen Morrison of Louisiana, H.R. 8210; Davis of Georgia, H.R. 8222; and Porter of Oregon, H.R. 8211. We want to express our most sincere thanks to the distinguished members of this Committee for introducing these bills. We want to commend and compliment the able Chairman of this Committee for scheduling the hearings on health benefits on the very day the Senate passed S. 2162. Many other members of this Committee, as well as many other Members of the Congress, are due a special vote of thanks for their interest in hospitalization legislation, as evidenced by the bills they have introduced. Special mention must be made of Congressmen Corbett of Pennsylvania, Broyhill of Virginia, Lesinski of Michigan, Foley of Maryland, Lane of Massachusetts, Fulton of Pennsylvania, Kilday of Texas, and Dollinger of New York, as well as to the other Members of Congress who have worked on behalf of a Government contributory hospitalization program over the years.

NEED FOR GOVERNMENT SPONSORED PROGRAM

During the past quarter of a century, the people of America and the people of the world have become increasingly aware of the fact that the greatest single asset that any nation can possess is a healthy citizenry. During this same period medical science has made remarkable progress. With this progress has come the age of specialization and the development of complicated and expensive diagnostic techniques. New and expanded surgical procedures have been discovered. The cost of proper medical and surgical care has risen out of the financial orbit of the average individual, and just as the corporate form of business developed to meet the needs of the machine age, hospital and medical insurance has developed to spread the costs and take the burden off individuals who are so unfortunate as to become the prey of illness and disease.

The original type of hospitalization coverage founded in the depression-ridden thirties has now become outmoded. Insurance covering medical and surgical costs and catastrophic illness has become a modern necessity. New and expensive diagnostic techniques and modern drugs have greatly improved the science of medical detection and cure. Doctors no longer are satisfied to guess; they want to be certain in their diagnosis--a marvelous development for the health of the Nation, but a most costly one to the individual. The aspirin tablet, which still performs wonders at 15 or 25 cents per tin, has been replaced to a large degree in modern medicine by miracle drugs--miracle druge that cost from $7 to $12 per treatment. Heparin, an anti-coagulant used in extreme heart cases, costs as high as $17 per dose.

A proper medical insurance program is no longer within the means of the average worker. The individual buys what he can, but frequently finds his program several thousand dollars short of meeting the cost of an illness that may beset him or his family.

As a matter of fact, Congress recognized a responsibility in this area as long ago as 1946. In July of that year, Congress passed the Railroad Unemployment Act. It provided for temporary disability benefits arising out of non-occupational diseases. As of 1958, the contribution rate of the railroads to the plan was 2.5 per cent of payroll. The employees make no financial contribution.

STATE SPONSORED PLANS

By 1958 four States had recognized the importance, indeed the validity of requiring protection for disability arising out of non-occupational ailments. The first such statute was enacted by Rhode Island in 1942. California adopted a similar program in May, 1946. New Jersey followed in June, 1948. On April 1 this year, a similar program became operative in New York.

The first two States to adopt this program provided for employee contributions only; the last two have placed the greater share of the cost on the employer. This matches the growing trend found in private industry.

Under the New Jersey plan, the employee pays 0.5 per cent of the first $3,000 of annual earnings. The employer pays between 0.75% and 1% depending upon the firm's experience rating. If the workers are covered by a plan equal to, or better than the State program, the employer is not required to pay the State contribution. A most interesting feature of the program is that even where workers are covered by private plans, the maximum amount they can be assesses is 0.5% of the first $3,000 of annual earnings. Employers must pay any remaining costs. This is evidence of the fact that in the better programs the employers pay more than two-thirds of the cost.

To a great extent, the New York program is similar to the New Jersey plan. In New York the employees pay 0.5% of the first $60 weekly wages, not to exceed 30 cents per week. Employers pay any remaining cost. Private plans existing at the time the New York program was established may continue during the life of the contract; they may also be extended by collective bargaining agreements. Needless to say, such plans will no doubt be more liberal than the State program.

CANADIAN PROGRAMS WELL ADVANCED

Our neighbors to the north in Canada have been very active in the field of hospital insurance. Seven Canadian Provinces have compulsory Provincial hospital plans that employers having 15 or more employees must adopt. This program is subsidized by the Dominion and Provincial Governments.

In this country, many State, County and Municipal Governments have good programs; we will discuss these further in another connection.

HOSPITALIZATION PROGRAMS IN PRIVATE INDUSTRY

In our country, largely through negotiated contracts, 89 million workers and dependents in private industry are currently covered.

The following data are taken from the Social Security Bulletin for March, 1959:

1. On December 31, 1957, 37.1 million employees were covered for hospitalization benefits in some type of employee benefit plan. Of the total, 18.4 million were covered by commercial insurance companies, another 16.5 million under Blue Cross, and the remaining 2.2 million in employee plans or prepaid medical programs.

2. 35.1 million had surgical coverage. There were 19 million in commercial plans, 13.6 million in Blue Cross and Blue Shield, and 2.5 million in employee-sponsored or prepaid programs.

3. 24.9 million had regular medical benefits. Of these, 11.3 million were in commercial companies, 11.1 million in Blue Cross and Blue Shield plans, and 2.5 million in employee-sponsored or prepaid programs.

4. Major medical coverage was reported for 5.1 million employees, although this is the newest type of coverage.

As previously indicated, approximately 89 million workers and dependents are currently covered under some form of health insurance from the workers' jobs. This in itself is ample evidence that the health of employees is an important consideration to employers. If it is a desirable personnel practice for profit-inspired employers, certainly it should commend itself to the Federal Government.

In all of our research on this subject, it was noted that more and more industrial employers are paying the total cost of these programs.

A study completed in November 1957 by the Department of Labor produced some interesting data on Health and Insurance Plans established under collective bargaining procedures through 1955. The study, which included 300 plans covering 4,981,000 employees, developed the following cost figures:

1. 162 plans providing benefits for employees were financed entirely by the employer.

2. 138 plans were financed by joint contributions.

3. 120 plans providing benefits for the workers' dependents were underwritten entirely by the employer.

This study points up two significant trends:

1. The employer is more and more assuming the major portion of costs of health insurance programs.

2. Dependents are more and more being included in coverage.

We submit that the principal motivating factor behind these trends is the acknowledgment and acceptance by enlightened private employers that it does no good to have an employee physically present but mentally absent from his job because he is worried about medical bills. On that premise, it is difficult for us to conceive of Government not being equally anxious to have a similar climate for its personnel.

REQUIREMENTS FOR A GOOD PROGRAM

In our opinion, there are five requirements for a good Government contributory hospital and medical program: (1) The Government must contribute enough to be of material aid; (2) The program must be broad and comprehensive enough to attract employees--if it is to be of any material value, it must be considerably better than the programs that the employees now have; (3) The amount paid by the individual must be within the means of the lower-paid employees; (4) The plan must be workable on a nationwide basis--it must be flexible; (5) It must permit the employee to participate in the very best program available in the community in which he lives.

We believe that the Government should contribute two-thirds of the cost. However, in the interest of establishing and expediting a health benefits program, we are now supporting S. 2162, wherein the Government contributes 50 per cent of the cost. We cannot nor will we support a program wherein the Government makes a lesser contribution. The maximum benefits provided for in the present bill will cost the employee $9.21 a month. That is the maximum the average employee can afford. Fifty per cent of the Federal employees earn less than $4,790 per year. This

is the median pay according to the Civil Service Commission based on figures for June 30, 1958.

In a report published by the Department of Research and Service of the American Federation of State, County and Municipal Employees, under date of July 1, 1959, we garner the following interesting information. Out of 316 State, County and Municipal programs, the employer pays the following:

No. of Plans	Percentage paid by employer
121	100%
137	50% to 88%
14	Less than 50%
44	Specified payment--percentage could range very high.

Practices prevalent in other plans in both Government and industry indicate that the minimum amount paid by the Government should be 50%.

MAJOR MEDICAL

There has been a great deal of discussion relative to the need for major medical or catastrophic coverage. We believe that a good health benefits plan must include protection for catastrophic illness. While it is true that the need for this type of coverage is not as extensive as the need for basic coverage, where it does exist the need is most acute. U.S. News and World Report in the March 16, 1959, issue quoted the statistics of one Major Insurance Company as showing that half a million American families had medical bills larger than their total income for the year. Dr. Ungerleider, discussing Major-Medical insurance declared: "We knew, as you knew that a myocardial infraction is just as severe as a subtotal gastrectomy and the economic factors are not far apart."

We have known--and I am sure that the members of this Committee have known--hundreds of people who have lived their entire life under the burden of a crushing debt because of a major illness in their family, and a still greater liability to the Nation is the fact that thousands of people neglect medical care and attention because they do not have the money to meet the necessary charges.

S. 2162 MEETS THE CRITERIA OF AN ADEQUATE PROGRAM

It is our carefully considered opinion after a thorough study that S. 2162 meets the criteria of an adequate program. There are many types and forms of hospital protection; each proponent thinks his is the best. There are many fine programs that may very well be the best in a given city or metropolitan area, but S. 2162 is tailored to meet the many problems of furnishing a program that will give adequate protection to the employees of the Federal Government located in 50 different States, the possessions of the United States, and many countries all over the world.

The program is flexible. It does not conform exactly to any program that we know of now in existence; it does, however, conform more closely to the plan now operating in New York State for state employees than to any other now in existence. The description of the New York plan, as set forth by Agnes W. Brewster of the Department of Health, Education and Welfare, will suffice as a general description of S. 2162. We are taking the liberty of paraphrasing her explanation only to the extent of substituting proper descriptive terms. "The law establishes a health insurance function within the Civil Service Commission, described in general terms the group health insurance benefits which could be provided (and the types of exclusions), indicated that proposals for insurance contracts were to be invited and indicates some of the conditions to be observed in the contracts. The law set the maximum contribution of the Government per employee. It prescribes the persons eligible for coverage in general terms, authorized payroll deductions and the deductions from the retirement allowances of retired employees. It created a health insurance fund and gave the Commission power to promulgate necessary rules and regulations.

"From this brief summary, it can be seen that the law provided only a general framework, leaving the development of the program to the Civil Service Commission."

This well describes in a few words the plan of S. 2162.

SPECIFIC PROVISIONS OF S. 2162

It is not our intention to discuss the provisions of S. 2162 in detail. The details of the bill are extremely well described and explained in the Senate Committee Report and we do not wish to consume the time of the Committee by going over this ground again. There are some provisions, however, that require further discussion. Each employee will have at least two plans from which to make a selection; others could well have four, providing that a bona fide employee plan or a group practice prepayment plan was available to him. The benefits described in S. 2162 are maximum benefits; the payments provided in the bill are maximum payments. The method followed in determining the cost of the legislation and establishing the cost to the Government at $145.3 million were set forth in the Senate Report as follows:

Aggregate costs

> Data on the number of married women working for the Government, or the number of instances where husband and wife are both Government employees, do not exist. To arrive at aggregates the cost estimates that follow assume that:
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> (1) Two million employees will be eligible to participate in the program.
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> (2) Ninety percent of them will do so--i.e. 1.8 million employees will elect coverage.
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> (3) Forty percent will enroll as individuals and 60 percent as families.
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> (4) One hundred and fifty thousand women with non-dependent husbands, will enroll their families.
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> (5) All contracts will be at the maximum bi-weekly contribution shown. (This assumption results in aggregate costs somewhat above those anticipated.)
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> On an annual basis, the assumed contributions are $91 for single employees ($45.50 from the Government) and $221 for family coverage ($110.50 from Government).

720,000 single employees X $91	$ 65,520,000
1,080,000 employees with families X $221	238,680,000
Total	304,200,000
Government contribution	145,300,000
Employee contribution	158,900,000

> The foregoing estimates are thought to be conservative. For example, substantial reductions in cost could result from eventualities such as the following:
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> (1) Should one or more of the carriers offer a lower-benefit program that cost single employees 20 cents less than the biweekly maximum permitted and cost employees with families 50 cents biweekly less than maximum and were this chosen by 50 percent of the participating employees, the total cost would be reduced by $18 million annually.
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> (2) Should 85 percent of eligible employees elect to participate (rather than the assumed 90 percent) because of other protection available through the spouse's place of

employment, the total annual cost of the program would be reduced by $16.9 million.

Experience of similar programs suggests that participation of more than 90 percent of employees is highly unlikely.

The maximums ($45.50 annual for single employees, $110.50 for families, and equal amounts from Government) are consistent with costs of similar programs in private industry and in the State of New York. They are also consistent with data developed by the U. S. Department of Health, Education, and Welfare on per capita private expenditures for health services.

The Federal employees health benefits fund

The bill creates a fund which is a repository for, and keeps separate for the purposes of this bill, the amounts deducted from employees' salaries and the Government's contributions. The moneys in the health benefits fund are to be used for three purposes:

(1) to pay the premiums or subscription charges under policies or contracts purchased from or entered into with carriers;

(2) to pay necessary expenses incurred by the Commission in carrying out the act; and

(3) to provide an adequate reserve to assure stability of subscription rates over a reasonable period.

The bill does not contemplate the accumulation of large reserves in the health benefits fund. The committee is of the opinion that a reserve of not to exceed approximately 3 percent of any 1 year's contributions or in excess of an accumulative total of approximately 10 percent should be adequate to assure stability of subscription charges over a given period of several years. The large variables most likely to affect costs do not lend themselves to precise long-range actuarial predictions.

Therefore, the accumulation of reserves in the health benefit fund is permitted primarily to assure the stability of subscription charges over a reasonable period of time.

The bill contemplates that administrative expenses incurred by the Commission should not exceed 1 percent of the amounts paid into the fund. If the program requires contributions totaling $300 million annually, administrative expenses should be less than $300,000 per year.

The Civil Service Commission and the Bureau of the Budget have advanced two objections to the cost figure--one is that the figure does not include the cost for retirees. According to the Commission, the first-year cost will be $2.5 million, and in ten years it will increase to $25 million. The Commission also contends that there should be a larger percentage provided for reserves. Inasmuch as the estimate of cost by the Committee is a maximum estimate, we are convinced that the estimate is more than ample to take care of the cost for retirees. We also believe that the Senate Post Office and Civil Service Committee plan provides adequate provisions for reserves.

Furthermore, we believe that the Committee estimate is on the high side. We base this conclusion on three facts: (1) We seriously doubt that in entering into contracts with the insurers the Commission will make the same premium payments for benefits covering a man and wife that they will make for benefits covering a man, wife and children. In commercial plans the rates for man and wife are 25 to 40 per cent less than for a family. If this fact is valid, this one factor alone will act to greatly reduce the stated cost. (2) There are approximately 500,000 Federal employees who earn less than $4,000 per year. These employees will have difficulty paying $9.21 per month for coverage. In all probability, hospitalization programs will be available for them at a lesser figure. This, too, will reduce the overall costs. (3) In areas where hospital costs are lower, it is most probable that some employees will elect coverage that costs less than the maximum allowed. This, too, will operate to reduce the Government cost.

We want to make it absolutely clear, however, that the hospital and medical provisions found in this bill are not excessive. The coverage provided should not be reduced. If the Government would pay two-thirds of the cost, those in the lower pay grades could purchase the type of a program that they need. In our opinion, the Government payment of 50 per cent is the absolute minimum that should be provided in a modern hospital-medical benefit bill.

ADVISORY COUNCIL

The Civil Service Commission has agreed to the necessity of an Advisory Council, but contends that the functions of the Council should be entirely advisory. The Commission objects to the participation of the Council in an effective way. We believe that the employees on the Advisory Council have a right to a large measure of participation, particularly in the formative stages of the program. The details of the plans to be adopted are placed almost entirely in administrative hands. To this we do not object, but we feel very strongly that the employees who are co-equal partners in financing the plan should have all of the rights

set forth for the Advisory Council in S. 2162. We urge this Committee to make no changes in the functions of the Advisory Council.

RETIREES

We would like to call your attention to one grave defect in the program. S. 2162 makes no provisions for furnishing hospitalization to the 411,000 retirees, nor to the 132,000 survivor annuitants now on the rolls. This is unfortunate inasmuch as no group requires hospital protection to as great a degree. The incidence of illness is greater among those who have passed the age of 65, and a study made in 1957 showed that only three out of eight of this group had some form of hospitalization protection. That percentage of participation would be somewhat greater now. A number of those interviewed by National Research Center of the University of Chicago reported that they had applied for hospitalization coverage but had been rejected. Recently insurers have adopted a more liberal policy toward insuring those over 65.

One of the reasons given by the Committee for not including the retirees in this legislation was the difficulty of determining the cost because of lack of information on the ages and marital status of the annuitants and survivor annuitants.

Senators Johnston and Neuberger, in addressing the Senate, promised to immediately proceed to prepare a program to cover the retirees. We hope that this Committee will do likewise, because the need in this area is extremely great, and has become a growing source of grave social responsibility.

THE EFFECTIVE DATE

The effective date of S. 2162 is July 1, 1960. The legislation will not increase the budget for the current fiscal year. We believe that the bill must be passed this year. In order to complete the necessary administrative details for a program of this magnitude, immediate passage is most necessary. The insurance carriers, as well as the Civil Service Commission, will have many administrative functions to perform, and we respectfully urge this Committee to take prompt and favorable action on this legislation.

We thank the Chairman and Members of the Committee for giving us the opportunity to present our views on this most timely subject.

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